



## Point of View

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# Optimizing Your Sales Force During Economic Downturns

As the economy softens, many companies are proactively planning initiatives to fortify their competitive and financial positions, particularly in terms of managing costs, optimizing productivity, and protecting opportunities for long-term growth. After all, recessions are not permanent—the length of a recession averages 10 months – and those companies that actively manage through the crisis are at a distinct advantage when economic growth returns. Hewitt has found that leading organizations focus on the most critical talent segments—i.e., those high-impact employee groups within the organization that contribute disproportionate value to the business. The goal is to ensure that these groups are aligned and committed to moving the business forward.

Some of these groups align with mission-critical processes, others with valuable customer segments, and still others are high-performing members of key functions or geographies. Sales professionals in many companies meet several of these criteria. In this challenging environment, the ability of your sales function to drive profitable growth is absolutely critical.

Consider the case for focusing on the sales force in an economic recession. Say there are five major competitors in a widget-manufacturing industry. In total, they have manufacturing capacity to turn out 1 million widgets per year. In good economic times, demand for widgets approaches 1.1 million per year, or 110 percent of manufacturing capacity. This means that prices can rise and the sales force acts primarily as an order-taker in a seller's market. If the economy softens, and demand for widgets drops to 900,000 per year, these five companies are going to see plant utilization drop to 90 percent, on average. Depending on the companies' cost structure, this could crush profitability. If two of the five competitors have strong sales forces that deliver premium customer service, they're more likely to hold on to their existing customers at existing price points. The pain will be felt disproportionately among the three competitors with sales forces whose strength and skills atrophied during better economic periods.

In other words, failure to address, align, and motivate the sales force can be a fast path to customer churn, decreased price realization, increased cost, and/or failed market initiatives at the worst possible time.

Here are five strategies Hewitt suggests companies adopt now to optimize sales force effectiveness when the economy recovers:

### **Take a Balanced Approach to Cutting Costs and Driving Growth**

In times of crisis, many organizations are quick to carve costs out of the organization—without careful evaluation of opportunities for growth. First, evaluate industry growth. If analysts are projecting double-digit growth in a particular market, it may cost a company more to cut staff this year and hire them back next year when growth returns. The hard costs come in the form of severance, recruiting fees, and other charges. The costs that are more difficult to evaluate include the damage to both the product and employment brand, lost productivity from those salespeople who are kept, and customer churn from open or overloaded territories. Analysis can help determine which parts of the business should be in cost-cutting mode and which have the seeds of future growth that must be protected.

### **Resegment Markets and the Customer Base**

As suggested above, not every customer or prospect is equal in terms of sales opportunity, loyalty, price sensitivity or buying process. If 80 percent of a company's revenue and/or profit is coming from 20 percent of its customers, what's coming from the rest? Is any profit generated from the bottom 20 percent of customers? What's the cost of the sales resources covering those accounts? When was the last time you asked your customers how they wanted to be served? Are you over-investing in some customer segments and under-investing in others? If you haven't calculated sales potential in each of your customers, you can't truly know your account share and how much additional investment in a particular account is warranted. Leading organizations have

resegmented their customer base to identify and retain the most profitable customers in the current economic environment, shift low-potential/transactional customers to cheaper sales coverage models, and exploit previously hidden growth opportunities. Good customer segmentation also provides the foundation for many other powerful programs and tools. If this segmentation is performed correctly, it drives other initiatives to eliminate unnecessary expense and focus on growth.

### **Improve the Yield of Your Selling Process**

Like any other money-making activity, selling is work. If a company maps out its selling process and examines the lead flow going in, it can assess the yield of the process in terms of closed deals, transaction sizes, and retained customers relative to the man-hours that are applied. Let's say, for example, that marketing activities in a particular territory generate 1,000 leads per year. Those leads are run through a selling process that qualifies them, proposes solutions, negotiates terms, and closes some percentage of the deals. Say that in this territory, 500 proposals are written and 200 deals are closed per year. That's a 40 percent close rate. It also implies that 500 leads were disqualified from the process. Were these the right 500? We know that at least 300 leads made it through the proposal stage and were then lost. If the man-hours required between qualification and closing are on average 40 hours, then this represents six FTEs' worth of work that produced no value for the company. Careful analysis can help a company determine how to eliminate activities from the selling process that don't add value.

### **Revisit Sales Compensation, Starting with Variable Pay**

Variable pay, by design, can relieve pressure from overall compensation spending and provide flexibility available for fixed costs.

While providing the greatest income opportunity for most employees, variable pay also should be an indicator of organizational performance. If your variable pay plan isn't tracking well with performance, this may be the time to re-examine the plan structure to ensure that it reinforces the right measures and behaviors. Quick pay-for-performance correlation analysis can determine whether this relationship exists or your plans are funneling money to the wrong places.

For your sales force, think of variable pay as an opportunity to truly motivate and differentiate your top performers. Consider increasing upside opportunity to drive growth from your best. Look into quota increases to manage costs from your low performers. In a recent Hewitt compensation survey, some 42 percent of surveyed companies cite plans to make changes to base salary spending, variable pay spending, or both—primarily over concerns about the state of the economy or because the companies themselves are under tremendous cost pressure. Finally, ensure that a solid governance model exists that monitors performance and administration of the sales compensation plans.

### **Assess and Allocate Your Sales Force for “Best Fit” Staffing**

Now is the time to optimize your sales force and make sure your best talent is deployed against the best opportunities. Even the best salespeople may struggle in an economic recession. Simplistic stack-ranking based on revenue production or quota attainment leaves these resources vulnerable to RIFs and other unfavorable outcomes. A better approach combines qualitative performance management approaches to identify important competencies, evaluate performance, allocate resources, and deliver rewards. This may mean a focus on “best fit” staffing where individual

strengths (and weaknesses) are assessed and analyzed, including aligning your best talent with your highest payoff opportunities. It also means taking a “supply-chain” approach in analyzing the sales process and ensuring that the right resources are assigned to the right areas.

With the heightened focus on efficiency in this environment, consider creating specialized roles that support various steps in the sales process—as opposed to having one resource taking on large portions of the process. Allocate resources with competencies required for each part of the sales process. Again, this should ensure growth and cost reduction because waste is removed, and specialized roles should be more efficient. If highly skilled sales resources are still not delivering the kind of productivity you need, conduct a sales time allocation exercise to remove non-selling activities from the sales force (the average sales force spends only 25 percent of its time selling).

### **Conclusion**

Employees in general are feeling every bit as anxious about the economy as their employers. So anything you can do to provide factual information about your company's situation, the steps being taken to ensure continued success—and what that means for individual employees—will help alleviate concerns, improve engagement, and maximize performance. In fact, according to a recent Hewitt survey, attracting and retaining top performers is a significant and growing concern—currently cited by 67 percent of companies (up from only 46 percent in July). Furthermore, our research shows that in times of crisis or uncertainty, employees look most to leaders and managers to help shed light on the situation and inspire others to take the right actions. Managers need to be armed with the right plan, tools, messages, and information to have a constructive discussion about actions that impact the sales force.

### **About Hewitt Associates**

For more than 65 years, Hewitt Associates (NYSE: HEW) has provided clients with best-in-class human resources consulting and outsourcing services. Hewitt consults with more than 3,000 large and midsize companies around the globe to develop and implement HR business strategies covering retirement, financial, and health management; compensation and total rewards; and performance, talent, and change management. As a market leader in benefits administration, Hewitt delivers health care and retirement programs to millions of participants and retirees on behalf of more than 300 organizations worldwide. In addition, more than 30 clients rely on Hewitt to provide a broader range of human resources business process outsourcing services to nearly a million client employees. Located in 33 countries, Hewitt employs approximately 23,000 associates. For more information, please visit **www.hewitt.com**.